



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 30.10.1995
COM(95)507 final

REPORT FROM THE COMMISSION TO THE COUNCIL
AND THE EUROPEAN PARLIAMENT

**on the implementation of EIB loans for projects of mutual interest
in countries of Asia and Latin America (ALA) that have concluded
cooperation agreements with the Community**

(1994-95)

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1. Introduction

This annual report on the activities of the EIB in a number of Asian and Latin American countries has been drawn up in accordance with Council Decision 93/115/EEC of 15 February 1993 (OJ No L 45 of 23 February 1993). It relates to the second year of implementation of the Bank's new mandate and covers the period from 23 February 1994 to 22 February 1995. The report on the first year was sent to the Council and the European Parliament in July 1994 (COM(94) 299 of 8 July 1994).

As well as giving a factual account of operations during the second year of activity, this report assesses experience gained from the beginning. The assessment is more meaningful than that made a year ago since it relates to a total commitment (for both years) of ECU 500 million (as against ECU 250 million for 1993) in respect of 13 projects (six in 1993) in ten different countries (four in 1993).

2. Legal framework

The legal and institutional framework of the mandate given to the Bank in Asia and Latin America is laid down in the following decisions and documents:

- **Council Decision of 19 May 1992** calling on the Bank to take action in those countries in Asia and Latin America which had concluded cooperation agreements with the Community.¹ This decision covers a period of three years and provides for an annual budget of ECU 250 million. It specifies that the loans will be used for projects of mutual interest that satisfy the Bank's usual criteria;
- **Council Decision 93/115/EEC of 15 February 1993**, granting a Community guarantee to operations financed in this connection;
- **Decision by the EIB Board of Governors of 22 February 1993** authorizing the Bank to undertake these activities to an aggregate amount of ECU 250 million per year for a period of three years on condition that the loans granted are fully guaranteed by the Community;
- **Contract of guarantee signed by the Community and the EIB on 4 and 17 November 1993**. This document refers to the above texts and stipulates that the guarantee will apply for a period of three years ending on 23 February 1996.

In addition to these texts constituting the legal basis for its mandate, the Bank, in accordance with the practice adopted for other geographical areas, signs with the countries where it grants loans a "framework agreement" laying down the legal, tax and financial framework for its activities in the country in question.

¹ There are thirty such countries (thirteen in Asia, seventeen in Latin America). See list at Annex I.

3. The Bank's mandate in Asia and Latin America in relation to its activities outside the Community

The mandate given to the Bank in Asia and Latin America is a follow-up to those performed in the ACP countries, the Mediterranean countries, and the countries of Central and Eastern Europe. It confers on the Bank special responsibility for supporting the Community's cooperation policy. Most of the Asian and Latin American countries concerned by this new EIB mandate have historical, cultural and economic ties with the countries of the European Union. These long-standing ties are reflected in a cooperation policy which was established by the Community in 1976 with a number of these countries and broadened over the years up to the 1992 and 1993 decisions concerning action by the Bank itself.

The Bank's activities in Asia and Latin America attracted greater interest among the countries concerned (the ALA countries and the EU Member States) and among European firms and economic operators during the second year of operations. The complementary role which the Bank can play in these regions is confirmed by experience. The international financial community also continues to view the EIB's action as a useful adjunct to its own operations. In two years, the Bank has thus consolidated its position as a lender in the Asian and Latin American countries. These points are developed in detail in section 5 below.

4. Results of the second year of activity

During the second year of activity ending on 22 February 1995, the Bank's Board of Directors approved the seven projects listed in the table below totalling ECU 250 million. A further ECU 8 million project was approved under the global authorization of ECU 20 million granted in the first year.

A summary table giving more details about project commitments and signings up to the end of the second year of activity is set out in Annex 2.

List of projects approved by the EIB during the second year of activity

Country	Sector	Amount committed (ECU m)	Mutual interest
<u>Latin America</u>			
Brazil	sanitation/water	40	considerable improvement of the environment
Chile	telecommunications	75	Euro-Chilean project for managing a public service concession; regional and international integration; transfer of European technology
Peru	transport	27	regional integration; providing better access to isolated areas
<u>Asia</u>			
Indonesia	gas transmission	24	considerable improvement of the environment by substituting gas for petroleum products; transfer of European technology
Pakistan	energy	36	more rational use of energy; transfer of European technology
Philippines	transport	25	regional and international integration
Philippines	industry	23	Filipino-European joint venture; European supplies; European guarantor; improvement of the environment
(Indonesia) ²	(financial sector)	(8)	(Euro-Indonesian joint venture)

² This Indonesian private project was approved under the global authorization set in place during the previous year (ECU 8 million).

5. General comments on operations and assessment of the Bank's action under its mandate in Asia and Latin America

5.1 Unlike the first year, which was a start-up period, **demand substantially exceeded the funds available in the second year.** As in the first year of activity, funds up to the annual ceiling of ECU 250 million were committed. This is hardly surprising in view of the absorption capacity of the two regions concerned, in which the flow of investment is high due to strong economic growth. Most of the countries eligible are classed as emerging countries.

5.2 In accordance with the Bank's mandate, projects financed will benefit both the Asian and Latin American countries concerned and the European Union. In line with this specific concept of **mutual interest**, operations in the second year continue to satisfy one or more of the following criteria: regional integration, improvement of the environment, transfer of European technology, joint ventures bringing together European and local firms, or the granting of concessions to private enterprises for investing in and running public services. The share taken by the private sector is growing gradually, and European operators are increasingly turning to the EIB. Three out of the eight projects approved in the reporting period were private and were allocated a total of ECU 106 million (42% of the annual ceiling), as compared with one project accounting for ECU 46 million in the first year. This trend is continuing as regards the projects currently being examined for 1995; the investments concerned bring European and local interests into direct partnership.

5.3 The **average size of operations** fell from ECU 46 million³ in the first year to ECU 36 million in the second year. An average size of loan of this order of magnitude allows adequate geographical distribution of the ECU 250 million annual ceiling and is compatible with the Bank's objective of keeping the cost of its operations within reasonable limits.

5.4 A better balance was achieved as regards the **sectoral breakdown** of operations in the second year through lower commitments in the energy sector and greater diversification:

	energy	transport	telecommunications	environment	industry
second year	24%	21%	30%	16%	9%
(first year)	(74%)	(18%)	--	--	(8%)

³ The average contribution in the first year works out at ECU 46 million if the global authorization of ECU 20 million, which is intended rather for small and medium-sized investment projects, is disregarded.

5.5 As far as **geographical breakdown** is concerned, the Bank has kept up its endeavours to maintain wherever possible a fair balance between the two regions concerned and between individual countries. The geographical breakdown between the two regions thus varied only slightly: 57% for Latin America (54% in the first year) and 43% for Asia (46% in the first year) (see Annex 2 for details). All the second-year operations concerned countries which had not received EIB loans during the previous year. Operations focused on a limited number of countries,⁴ with preference being given to those countries for which the type of finance proposed best meets the needs of borrowers. Some priority was also given to areas or countries which are strengthening their ties with the Community (Mercosur, Chile, ASEAN group, southern Asia, etc.).

5.6 **Fruitful cooperation continued with multilateral and bilateral financial institutions.** Five out of the eight new operations are being financed jointly with one or two multilateral institutions (Asian Development Bank, Inter-American Development Bank, World Bank) (see Annex 2). Despite the growing number of projects financed in partnership with the private sector, it is desirable to foster cooperation and good relations with the multilateral institutions, and such cooperation will therefore be maintained. The activities of the Bank and of the other multilateral institutions complement each other at project level (public projects and also private projects, in which these bodies are becoming increasingly involved). The studies produced by the above institutions furthermore constitute a valuable source of general, geographical and sectoral information.

5.7 **Cooperation with the European banking sector.** Cooperation has also been developed with the European banking sector in the sphere of both guarantees and direct joint financing.

5.8 In the second year, **framework agreements** establishing the general legal bases for carrying out projects in both the public and the private sector were concluded between the EIB and seven more countries (Argentina, Brazil, Chile, Pakistan, Peru, the Philippines and Paraguay). A full list of framework agreements signed up to the end of the second year is given in Annex 1.

⁴ Operations were approved in the first two years in ten out of the thirty countries theoretically eligible (see Annex 2). Mexico is a special case: a project was identified and finance approved by the Board of Directors, but approval was withdrawn following Mexico's decision not to go ahead with the project.

ASIA AND LATIN AMERICA

**1. List of countries which have concluded
a cooperation agreement with the European Community**

ASIA

ASEAN group (Brunei, Indonesia,
Malaysia, Philippines, Singapore, Thailand)
Bangladesh
China
India
Macao
Pakistan
Sri Lanka
Mongolia

LATIN AMERICA

Andean group (Bolivia, Colombia,
Ecuador, Peru, Venezuela)
Central American countries
(Costa Rica, Guatemala, Honduras,
Nicaragua, Panama, Salvador)
Argentina
Brazil
Chile
Mexico
Paraguay
Uruguay

**2. List of countries which have concluded
a framework agreement with the EIB
(situation at 22 February 1995⁵)**

ASIA

India 17/25 November 1993
Pakistan 25/28 February 1994
Philippines 15 September 1994
Thailand 10/17 January 1994

LATIN AMERICA

Argentina 3 October 1994
Brazil 19 December 1994
Chile 7 October 1994
Costa Rica 30 November 1993
Paraguay 19 September 1994
Peru 2 October 1994

⁵ Between 23 February and 31 May 1995, further framework agreements were signed with Colombia, Mexico and Uruguay. Agreements are being negotiated with China, Panama and Indonesia.

ANNEX 2

SUMMARY TABLE OF DECISIONS TAKEN BY THE EIB BOARD OF DIRECTORS BETWEEN 23 FEBRUARY 1993 AND 22 FEBRUARY 1995

Country	Project title	Sector	Amount committed (ECU million) (approved by the Board of Directors)		Amount signed (ECU million)	Remarks
			2/93 - 2/94	2/94 - 2/95		
Costa Rica	ICE Costa Rica	Energy (public)	44		44	Joint financing with the Inter-American Development Bank (IDB)
Argentina	Mercosur highway	Transport (public)	45			Joint financing with the IDB
Argentina	BAN (Buenos Aires Norte) natural gas	Distribution of natural gas (private)	46		46	Private project - public service concession
Chile	CTC (Compañía de Teléfonos de Chile)	Telecommunications (private)		75	75	Private project - public service concession
Peru	Pan American Highway	Transport (public)		27		Joint financing with the IDB
Brazil	CESAN	Sanitation (public)		40		Joint financing with the World Bank
TOTAL LATIN AMERICA			135 (54%)	142 (57%)	165 (52%)	
India	Powergrid	Energy (public)	55		55	Joint financing with the World Bank
Thailand	Erawan gas pipeline	Natural gas transmission (public)	40		40	Joint financing with the World Bank and the Asian Development Bank (AsDB)
ALA	Global authorization	Industry in the private sector	20			Used in 1994 for a project in the private financial sector in Indonesia (ECU 8 million). The available balance is to be used in 1995 for a private project in Pakistan
Pakistan	KESC	Energy (public)		36	36	Joint financing with the AsDB
Philippines	Davao airport	Transport (public)		25		Joint financing with the AsDB
Philippines	DUCC cement	Industry (private)		23	23	Private project - industrial joint venture
Indonesia	Gas transmission (Sumatra)	Gas transmission (public)		24		Joint financing with the AsDB EIB loan for the project: ECU 46 million, of which 24 million allocated under the 1994 budget and 22 million under 1995
TOTAL ASIA			115 (46%)	108 (43%)	154 (48%)	
TOTAL			250 (100%)	250 (100%)	319 (64%)	
GRAND TOTAL				500	319	

ISSN 0254-1475

COM(95) 507 final

DOCUMENTS

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Catalogue number : CB-CO-95-546-EN-C

ISBN 92-77-94858-2

Office for Official Publications of the European Communities

L-2985 Luxembourg